



KENTUCKY MUNICIPAL ENERGY AGENCY

ANNUAL REPORT 2018



PUBLIC POWER FOR KENTUCKY

FEATURES

1 A MESSAGE FROM OUR CEO & BOARD CHAIR

3 A NEW BEGINNING

5 POWER RESOURCES

7 THE POWER OF WORKING TOGETHER

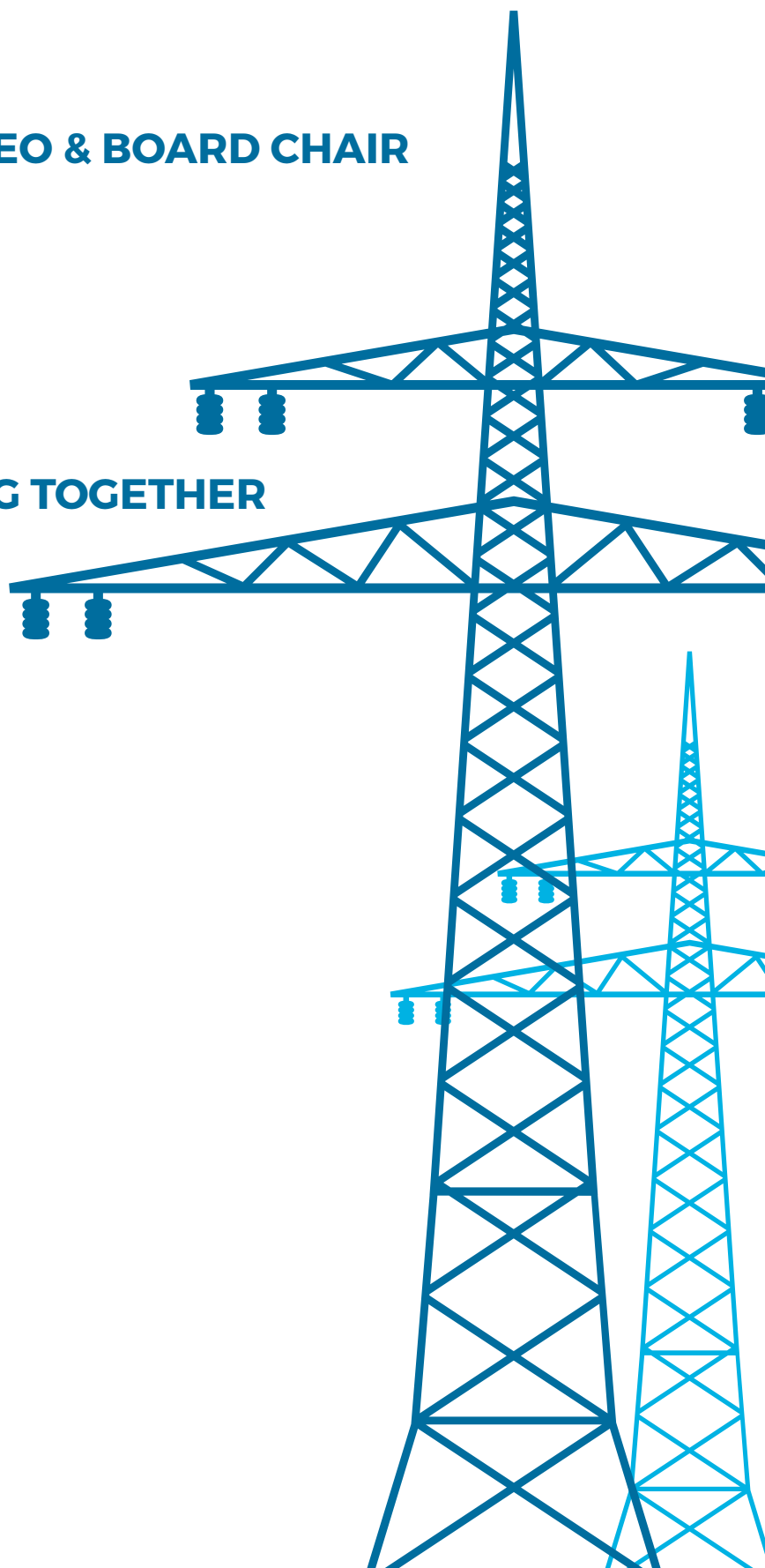
9 COMMUNITY SPOTLIGHT

11 BOARD OF DIRECTORS

13 MANAGEMENT TEAM

15 WHAT'S NEXT

17 FINANCIAL STRENGTHS



A MESSAGE FROM OUR

CEO AND BOARD CHAIR

The theme of Kentucky Municipal Energy Agency's first Annual Report is "Block by Block". We chose this theme because we've built an organization from the ground up. President John F. Kennedy famously said, "We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard."

KYMEA shares a similar spirit. The founding Members and their governing bodies chose to create an Agency to better serve the power supply needs of their customers. The founders knew it wouldn't be easy. Building a joint public agency would involve hard work, but we forged ahead because we knew it was the right path for the industries, businesses, and residents in the communities we serve.

As KYMEA assembled the blocks of a top-rated Agency, we were committed to building an organization second to none that will last for decades to come.

KYMEA ACHIEVEMENTS

Membership, Interlocal Cooperation Agreement, Bylaws, and Governance: The Cities of Bardwell, Falmouth, Madisonville, Paris, and Providence, the Frankfort Plant Board, the Barbourville Utility Commission, the Benham Power Board, the Corbin City Utilities Commission, and Owensboro Municipal Utilities entered into an Interlocal Cooperation Agreement forming KYMEA. The Agency's Bylaws were adopted on September 24, 2015 and the Agency elected its first Board Chairman, Vice Chairman, Secretary, and Treasurer. The City of Berea joined KYMEA in September 2016 as the Agency's eleventh member.

All Requirements (AR) Project Power Supply: KYMEA pulled together its initial set of power supply resources to meet the AR Project needs at significant wholesale power cost savings as compared with the members existing power supply arrangement. The Agency practices modern portfolio theory (MPT) when assembling its power supply portfolio. The idea behind MPT is to draw from a diverse set of environmentally responsible power supply resource options (fuels, technologies, sizing, timing, location, etc.), focusing on long-term, low cost, stable rates while minimizing risk. Disciplined power supply investing will ensure KYMEA's success for decades to come.

Solid Financial Foundation: KYMEA is a financially strong organization, with an A credit rating from Fitch Ratings. The Agency's most recent independent audit was conducted by BKD LLP, CPAs & Advisors. KYMEA has a \$5 million line of credit that is used to support project development, collateral postings, and working capital.

Management: KYMEA hired its first President and CEO in January of 2018, who proceeded to hire a highly qualified and experienced team to oversee the finance and accounting, resource portfolio



planning and operations, risk control, administrative, human resources, and communications services of the organization.

Public Visibility: In April of 2018, the Board of Directors approved elements of the Agency's strategy to help communicate KYMEA's goal of better serving its Members with cost-effective and reliable sources of electricity. The primary feature of the KYMEA logo is the energy source at its heart. The "M" represents "Municipalities" in the KYMEA acronym. For members of the Agency, 11 municipalities from across Kentucky, this glowing center represents the power that energizes their communities and the power to determine their own energy direction. The tagline, "Public Power for Kentucky" emphasizes that this is a power agency for Kentucky, a not-for-profit directed by its Members. The Agency's website (www.kymea.org) went live in September 2018.

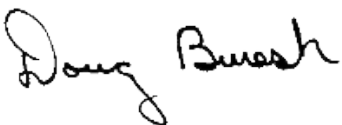
Member Communications: KYMEA was formed to facilitate effective collaboration among its Members to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. To spread that message, KYMEA will be distributing videos chronicling the beginnings of the Agency and describing the role of KYMEA.

Main Office: In November of 2018, the Agency dedicated the opening of its permanent offices in Louisville, Kentucky. KYMEA's office showcases a Board Room designed to facilitate two-way communications with Directors who are unable to attend meetings in person, allowing the Directors to participate and even vote. The Market Analytics Center (MAC) includes a state-of-the-art video wall to provide constant oversight of the energy markets, power supply resources, and member loads.

While 2018 was an exceptionally busy year, much work lies ahead as the Agency prepares for the May 1, 2019 date when the all requirements Members begin receiving service. And beyond that date, KYMEA is already planning for its power supply future with the goal of increasing membership so others can share in our success. It's a challenge we enthusiastically embrace, not because it's easy, but because it's hard.



RON HERD
Chairman of the Board



DOUG BURESH
President & CEO



WORKING TOGETHER

A NEW BEGINNING

In September of 2015, after 18 months of study and discussion, ten municipal electric utilities entered into an Interlocal Cooperation Agreement creating the Kentucky Municipal Energy Agency (KYMEA), a joint public agency. KYMEA was formed to facilitate effective collaboration among its Members to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems.

The objective of KYMEA is to provide cost-effective resources and services for the benefit of its members to enable them to achieve objectives they have set for themselves more efficiently and at lower costs than they could achieve individually.

Benefits of Joining KYMEA

- Economies of Scale: Aggregation of Member electric power supply requirements results in larger blocks of aggregated energy requirements and greater buying and financing power.
- Shared Costs: Do it once rather than multiple times. KYMEA provides the necessary products and services in a manner that is cost-effective for every Member.
- Shared Resources: The electric utility industry requires highly educated, talented and experienced people. Joint public agencies are ideal to effectively manage shared resources.
- Singular Focus: KYMEA has one focus: stable, reliable, low cost power supply and energy services for its Members.
- Common Goals: Like-minded municipal electric utilities with aligned goals, values and viewpoints make for effective and productive results.
- Reputation: A well-run joint public agency can enhance the credibility, respect and relevance of the individual municipal electric utilities in the eyes of external stakeholders. KYMEA emits a single unified message.

There is strength in numbers. By pooling their resources, the local public power utilities of KYMEA gain the economies of scale needed to be efficient in today's marketplace. This collaborative approach of sharing ideas results in substantial savings for their communities.

“None of us is as smart as all of us.”

- Ken Blanchard



2015



SEPTEMBER 2015

The Cities of Bardwell, Falmouth, Madisonville, Paris, and Providence, the Frankfort Plant Board, the Barbourville Utility Commission, the Benham Power Board, the Corbin City Utilities Commission, and Owensboro Municipal Utilities enter into an Interlocal Cooperation Agreement forming KYMEA. The Agency's Bylaws are adopted on September 24, 2015.

2016



JULY – AUGUST 2016

Eight members (Barbourville, Bardwell, Corbin, Falmouth, Madisonville, Paris, Providence, and the Frankfort Plant Board) enter into All Requirements Power Sales Contracts with KYMEA. The Agency completes the assembly of an initial portfolio of resources consisting of purchase power agreements with Big Rivers Electric Corporation, Illinois Power Marketing Company, and Paducah Power System.

SEPTEMBER 2016

The City of Berea (Berea) asks to join KYMEA and the Interlocal Cooperation Agreement is amended to add Berea as its eleventh member. Berea enters into a Transmission Service Agreement with KYMEA.

2017



MAY 2017

Deliveries of electricity to the Benham Power Board and the City of Paris begin using transmission service procured on their behalf by KYMEA.

DECEMBER 2017 – APRIL 2018

The City of Paris and KYMEA agree to enter into an agreement to utilize the Paris diesel generation as part of the Agency's AR Project power supply portfolio. The all requirements Members enter into agreements for KYMEA to use their entitlements to hydroelectric power from the Southeastern Power Administration (SEPA) as part of the AR Project power supply portfolio.

2018



JANUARY 2018

KYMEA hires its first president and CEO.

AUGUST 2018

The Agency executes a 20-year agreement with MAP® Energy and Open Road Renewables for 62.5% of the output of the 86MW Ashwood Solar I power plant as part of the Agency's AR Project power supply portfolio. The plant is scheduled to go into service in late 2022.

NOVEMBER 2018

The Agency opens permanent offices in Louisville, Kentucky.



POWER RESOURCES

COAL

Big Rivers Electric Corporation
100 MW
10-Year Contract for
Capacity and Energy

DIESEL

City of Paris
11 MW
Contract for Capacity and Energy

SOLAR

Ashwood Solar I
54 MW
20-Year Contract for Solar Electric
Capacity and Energy

COAL

Illinois Power Marketing Company
100 MW
3-Year Contract for
Capacity and Energy

NATURAL GAS

Paducah Power System
90 MW
10-Year Contract for
Capacity and Energy

HYDROPOWER

Southeastern Power Administration
32 MW
AR Members: Integration of
Hydroelectric Power





COMMUNITIES WE SERVE

THE POWER OF WORKING TOGETHER

Eleven Kentucky communities — large and small — have formed the Kentucky Municipal Energy Agency to control decisions about their communities' energy costs and ensure reliable sources of power.

The Kentucky Municipal Energy Agency was established under a Kentucky Interlocal Cooperation Agreement to provide wholesale electric power generation and transmission to the municipal utilities of its owner communities — Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence.

“We are truly building a diverse portfolio to provide more affordable power for our customers.”

- Chris Melton, Electric Superintendent of Madisonville Utilities Department & Chairman of the KYMEA AR Project Committee

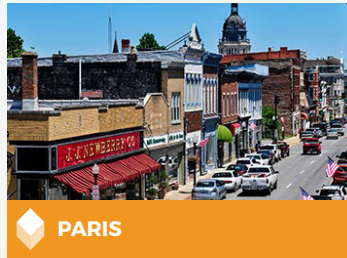




 **BARDWELL**



 **PROVIDENCE**



 **PARIS**



 **OWENSBORO**



 **FRANKFORT**



 **FALMOUTH**



 **CORBIN**



 **BEREA**



 **BENHAM**



 **MADISONVILLE**



 **BARBOURVILLE**



KYMEA: THE POWER OF UNBREAKABLE SPIRIT

COMMUNITY SPOTLIGHT

COUNTRY CUPBOARD RESTAURANT

MADISONVILLE, KY - Travel along Interstate 69 into the Western Coal Fields region, and you'll come across a small town called Madisonville, Kentucky. Founded in 1807 and named for Secretary of State James Madison, it later became a rail hub, coal mining center, and a major player in the tobacco industry.

Nicknamed "The Best Town on Earth", Madisonville prides itself on a sense of community and living by The Golden Rule. This phrase is passed on from generation to generation as a means of providing morality. Since most of the recipients have a sense of empathy, the message is generally well received. Morality is our set of guidelines on how to live, and what is right and wrong. This is where the folks of Madisonville truly shine.

Enter the Ice Storm of 2009. Considered the worst natural disaster in the state's history, the ice storm left almost half a million homes and businesses in the state without power. It left over 20 dead from carbon monoxide poisoning and hypothermia. Every National Guardsman in the state had been called in - 4,600 strong. In addition, over 5,000 utility workers made their way to the area, clearing debris and wielding chainsaws in an effort to restore power and promote mutual aid.

10 YEAR ANNIVERSARY NORTH AMERICAN ICE STORM OF 2009

◆ 3 INCHES OF ICE

◆ \$125 MILLION IN DAMAGE

◆ 1.3 MILLION WITHOUT POWER



HEART OF THE
COAL FIELD

MADISONVILLE

"The Best Town
WELCOMES

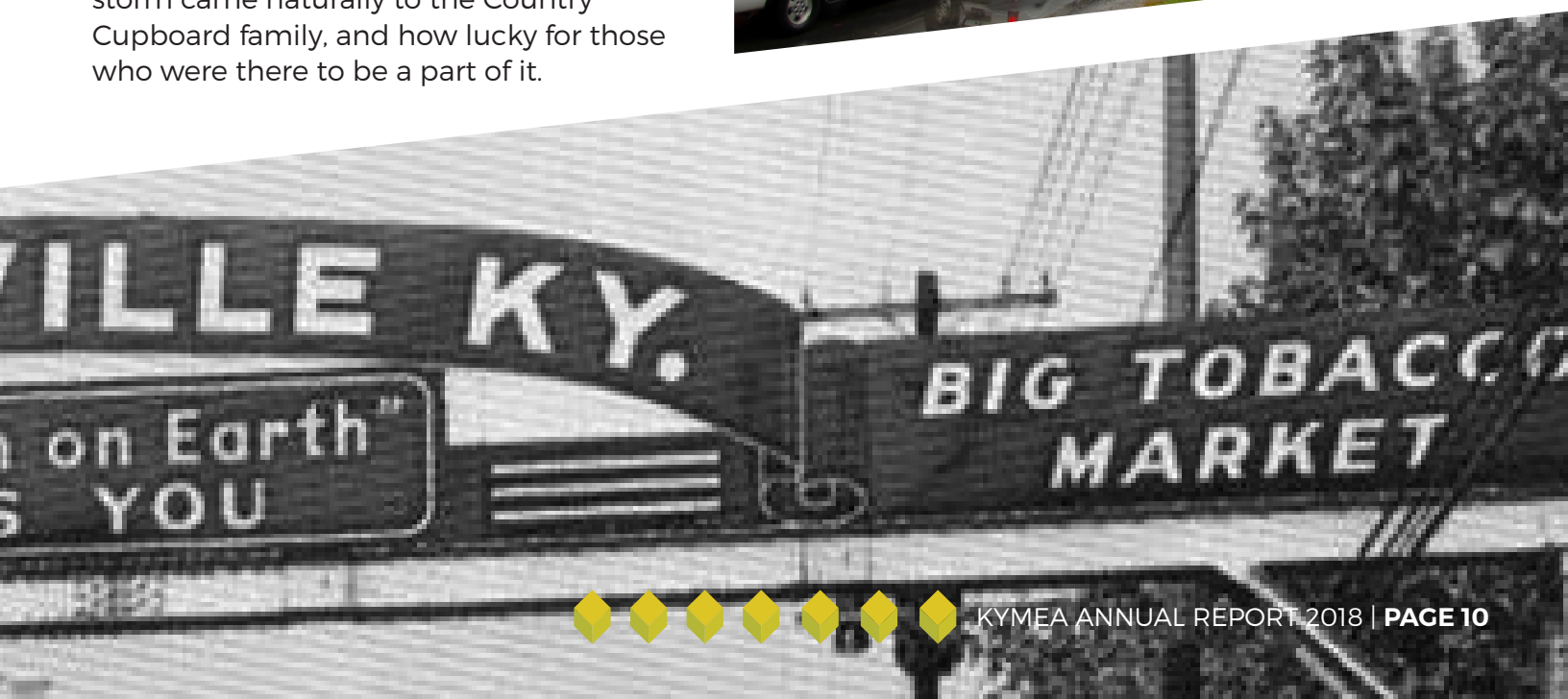


Country Cupboard Manager, Etta Back , remembers it well. “I’ve worked here for thirty years. Nothing stops us”, says Back. “That storm shut down the whole town, but not our spirit. We wanted to take care of those who had come to take care of us.”

As the crippling ice storm laid its wintry wrath across Madisonville, the staff at Country Cupboard woke to notes taped to their front doors - “Meet at the restaurant” was all that was needed to get the message across. Ruby Ware, a waitress for 28 years, remembers it well. “We cooked breakfast, lunch and dinner for those boys - anybody that needed to eat, they were welcome.”

Chef Deborah Lonely cooked meal after meal by candlelight at the gas stoves in the quiet of the night, while Phyllis Browning ran the show. Her son, Matt Browning, has worked at Country Cupboard since he was ten years old. Now owner of Country Cupboard and an Engineer at the Madisonville Fire Department, Matt recalls the unstoppable spirit that his mother displayed during the storm. “Mom is the backbone of the restaurant. She’s the hardest working woman I know.”

Food brings people together on many levels. It acts as nourishment of the soul and body, and breeds empathy. Feeding those who were in need during the ice storm came naturally to the Country Cupboard family, and how lucky for those who were there to be a part of it.



BOARD OF DIRECTORS



RON HERD
Director & Chairman
City Utilities Commission of Corbin
General Manager



JOSH CALLIHAN
Director & Vice Chairman
Barbourville Utility Commission
General Manager



CHRIS MELTON
Director & Secretary
City of Madisonville Electric
Department
Electric Superintendent



KEVIN HOWARD
Director & Treasurer
City of Berea Municipal Utilities
Utilities Director



KEVIN FRIZZELL
Director
Owensboro Municipal Utilities
Interim General Manager





EDDIE GOOCH
Director
City of Providence
Mayor



PHILIP KING
Director
City of Bardwell
Mayor



CHRISSY O'HARA
Director
City of Falmouth
Clerk & Treasurer



MIKE WITHROW
Director
City of Paris Combined Utilities
Assistant City Manager



GARY ZHENG
Director
Frankfort Plant Board
General Manager

CARL SHOUPÉ
Director
Benham Power Board
Benham Director



MANAGEMENT TEAM

The Kentucky Municipal Energy Agency (KYMEA) operates under the direction of a President who serves at the pleasure of the Board of Directors. The President is the chief executive officer with full responsibility for planning, operations, and the administrative affairs of KYMEA. KYMEA's senior management team has significant experience in the utility industry, with an average of over 23 years of service.

KYMEA exists to serve its Members. Members may choose to enter into contracts with KYMEA for power supply or other services. Members also

have the flexibility to establish projects for the benefit of one or more Members, such as the All Requirements Project (AR Project), which has been created to acquire power supply resources to serve the needs of eight participating all requirements Members. The business model objective of KYMEA is to provide cost-effective resources and services for the benefit of its Members to enable them to achieve objectives they have set for themselves more efficiently and at lower costs than they could achieve individually.

MICHELLE HIXON

Office Manager &
Executive Assistant



DOUG BURESH

President & CEO



ROB LEESMAN

VP of Market Analytics



HEATHER OVERBY

VP of Finance &
Accounting/ CFO





WHAT'S NEXT

President Dwight D. Eisenhower said, "I have only one yardstick by which I test every major problem -- and that yardstick is: Is it good for America?"

KYMEA has adopted this same approach by asking, Is it good for the KYMEA owner communities and their customers?

The teamwork that drove our 2018 business accomplishments came from the dedicated leadership of our board, advisors, and employees who are committed to working together with professionals from our owner communities for the benefit of the customers whom they serve. By working together, we ensure our success.

There is still much work to be done before the Agency begins delivering power to the AR Project Members on May 1, 2019. Meticulous planning is underway as we prepare KYMEA's Market Analytics Center to monitor the Member power needs, manage our portfolio, and optimize the market opportunities.

Activities planned for 2019 support the operation and future growth of the organization. A key aspect of creating a sustainable business model for our organization is responsiveness to evolving needs of our Members—with a focus on managing system cost and risk. Kentucky Municipal Energy Agency remains a customer-focused and innovative energy provider for our owner communities.

The KYMEA management team would like to extend our sincerest gratitude for the support of our owner communities.

"Coming together is the beginning. Keeping together is progress. Working together is success."

- Henry Ford



“By failing to
prepare, you
are preparing
to fail.”

- Benjamin Franklin



FINANCIAL STRENGTHS

REPORT OF MANAGEMENT

KYMEA is a financially strong organization, with an A credit rating from Fitch Ratings. KYMEA has a \$5 million line of credit that is used to support project development, collateral postings, and working capital. KYMEA's financial profile is expected to be modest through the foreseeable future given an initial strategy of purchasing power supplies to meet AR Project Members needs. All of KYMEA's power procurement expenses will be recovered from the AR Project Members on a monthly basis, with liquidity provided by staggered payment dates, a prospective line of credit and cash reserves as they accumulate. No long-term debt is anticipated at this time.

KYMEA Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

KYMEA's independent auditor's responsibility is to express an opinion on the financial statements based on its audit. The recent audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require the auditor to plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

The board of directors, who are not employees of KYMEA, periodically meet with the independent auditors and management to discuss the audit scope, audit results and any recommendations to improve the internal control structure. The board of directors directly engages the independent auditors.

DOUG BURESH
President & CEO

HEATHER OVERBY
VP of Finance &
Accounting/ CFO



FINANCIAL STATEMENTS

Kentucky Municipal Energy Agency
June 30, 2018 and 2017

Contents

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis 3

Financial Statements

 Balance Sheets 6

 Statements of Revenues, Expenses and Changes in Net Position 7

 Statements of Cash Flows 8

 Notes to Financial Statements 9

Independent Auditor's Report

Board of Directors
Kentucky Municipal Energy Agency
Louisville, Kentucky

We have audited the accompanying financial statements of Kentucky Municipal Energy Agency (the Agency), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Municipal Energy Agency as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Lincoln, Nebraska
August 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Municipal Energy Agency's ("KyMEA" or the "Agency") financial performance provides an overview of the Agency's activities for the fiscal years ended June 30, 2018, 2017 and 2016. It should be read in conjunction with the basic financial statements and the accompanying notes.

Background

KyMEA is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KyMEA was created to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency's Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the "Members").

KyMEA was created in 2015 and will begin to supply power to Members beginning on May 1, 2019. During 2018, 2017 and 2016, the Agency incurred costs for administration, which were billed to the Members.

Summary of the Financial Statements

The financial statements, related notes to the financial statements and management's discussion and analysis provide information about KyMEA's financial position and activities.

Management's Discussion and Analysis – provides an objective and easily readable analysis of the financial activities of KyMEA based on currently known facts, decisions or conditions.

Balance Sheets – provide a summary of the assets, liabilities and net position of KyMEA, as of the Agency's fiscal year end.

Statements of Revenues, Expenses and Changes in Net Position – present the operating results of KyMEA into various categories of operating revenues and expenses, and non-operating revenues and expenses.

Statements of Cash Flows – report the cash provided by and used for operating activities, as well as other cash sources such as interest income.

Notes to the Financial Statements – provide additional disclosures and information that is essential to a full understanding of the data provided in the statements.

Financial Analysis

The following comparative condensed financial information summarizes the Agency's financial position, operating results and cash flows for the years ended June 30, 2018, 2017 and 2016.

Condensed Balance Sheets

	2018	2017	2016
Assets			
Current assets	\$ 410,198	\$ 564,113	\$ 418,724
Other noncurrent assets	-	259,746	50,000
Capital assets	406,037	-	-
Total assets	<u>\$ 816,235</u>	<u>\$ 823,859</u>	<u>\$ 468,724</u>
Liabilities and Net Position			
Current liabilities	\$ 640,561	\$ 720,985	\$ 408,826
Noncurrent liabilities	392,005	-	-
Total liabilities	<u>1,032,566</u>	<u>720,985</u>	<u>408,826</u>
Net position			
Net investment in capital assets	54,487	-	-
Restricted	-	259,746	50,000
Unrestricted	(270,818)	(156,872)	9,898
Total net position	<u>(216,331)</u>	<u>102,874</u>	<u>59,898</u>
Total liabilities and net position	<u>\$ 816,235</u>	<u>\$ 823,859</u>	<u>\$ 468,724</u>

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2018	2017	2016
Operating revenues	\$ 2,195,330	\$ 1,690,811	\$ 1,013,672
Operating expenses	<u>2,514,447</u>	<u>1,647,967</u>	<u>953,774</u>
Operating income (loss)	<u>(319,117)</u>	<u>42,844</u>	<u>59,898</u>
Net nonoperating revenues (expenses)	<u>(88)</u>	<u>132</u>	<u>-</u>
Change in net position	<u>(319,205)</u>	<u>42,976</u>	<u>59,898</u>
Net position - Beginning of Year	<u>102,874</u>	<u>59,898</u>	<u>-</u>
Net position - End of Year	<u>\$ (216,331)</u>	<u>\$ 102,874</u>	<u>\$ 59,898</u>

Financing

In July 2017, the Board approved the Agency to execute a revolving line of credit agreement, expiring October 19, 2019 for advances up to \$5,000,000. Advances under this agreement bear interest at two percent (2%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was \$392,005 as of June 30, 2018.

Capital Assets

The agency's investment in capital assets as of June 30, 2018 totaled \$406,037 (net of accumulated depreciation). This investment includes transportation equipment and construction work in process.

General Trends and Significant Events

KyMEA will continue to search for additional power and energy resources for its Members, which may include purchased power agreements, investments in power projects and other sources. KyMEA's goal is to establish a portfolio with renewable, coal and natural gas resources to provide more flexibility in response to market changes and future regulations.

Contact Information

This financial report is designed to provide a general overview of KyMEA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Heather Overby, Vice President of Finance and Accounting / Chief Financial Officer, 1700 Eastpoint Business Center, Louisville, KY 40223, (502) 640-1304.

Kentucky Municipal Energy Agency

Balance Sheets

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 61,442	\$ 342,612
Accounts receivable	340,305	214,023
Prepaid expenses	8,451	7,478
Total current assets	<u>410,198</u>	<u>564,113</u>
MISO Collateral Deposit	<u>-</u>	<u>259,746</u>
Capital Assets, Net of Accumulated Depreciation	<u>406,037</u>	<u>-</u>
Total assets	<u><u>\$ 816,235</u></u>	<u><u>\$ 823,859</u></u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 612,847	\$ 720,985
Accrued liabilities	26,423	-
Accrued interest payable	1,291	-
Total current liabilities	<u>640,561</u>	<u>720,985</u>
Line of Credit	<u>392,005</u>	<u>-</u>
Total liabilities	<u>1,032,566</u>	<u>720,985</u>
Net Position		
Net investment in capital assets	54,487	-
Restricted	-	259,746
Unrestricted	<u>(270,818)</u>	<u>(156,872)</u>
Total net position	<u>(216,331)</u>	<u>102,874</u>
Total liabilities and net position	<u><u>\$ 816,235</u></u>	<u><u>\$ 823,859</u></u>

Kentucky Municipal Energy Agency
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Billings to members	\$ 2,195,330	\$ 1,690,811
Total operating revenues	<u>2,195,330</u>	<u>1,690,811</u>
Operating Expenses		
Transmission	420,596	121,091
Depreciation	2,123	-
Other operating expenses	<u>2,091,728</u>	<u>1,526,876</u>
Total operating expenses	<u>2,514,447</u>	<u>1,647,967</u>
Operating Income (Loss)	<u>(319,117)</u>	<u>42,844</u>
Nonoperating Revenues (Expenses)		
Interest expense	(255)	-
Interest income	<u>167</u>	<u>132</u>
Total nonoperating revenues (expenses)	<u>(88)</u>	<u>132</u>
Change in Net Position	<u>(319,205)</u>	<u>42,976</u>
Net Position, Beginning of Year	<u>102,874</u>	<u>59,898</u>
Net Position, End of Year	<u><u>\$ (216,331)</u></u>	<u><u>\$ 102,874</u></u>

Kentucky Municipal Energy Agency

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from members	\$ 2,069,048	\$ 1,476,788
Payments to service providers and others	(2,602,358)	(1,337,344)
MISO collateral receipts (remittances)	259,746	(209,746)
	<u>(273,564)</u>	<u>(70,302)</u>
Net cash used in operating activities		
Noncapital Financing Activities		
Advances from line of credit	147,801	-
Payments on line of credit	(100,000)	-
	<u>47,801</u>	<u>-</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Advances from line of credit	344,204	-
Purchase of capital assets	(400,814)	-
Interest payments	1,036	-
	<u>(55,574)</u>	<u>-</u>
Net cash used in investing activities		
Investing Activities		
Interest income	167	132
	<u>167</u>	<u>132</u>
Net cash provided by investing activities		
Net Decrease in Cash	(281,170)	(70,170)
Cash, Beginning of Year	342,612	412,782
Cash, End of Year	<u>\$ 61,442</u>	<u>\$ 342,612</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities		
Operating income (loss)	\$ (319,117)	\$ 42,844
Depreciation	2,123	-
Changes in operating assets and liabilities		
Accounts receivable	(126,282)	(214,023)
Prepaid expenses	(973)	(1,536)
MISO collateral deposit	259,746	(209,746)
Accounts payable	(115,484)	312,159
Accrued expenses	26,423	-
	<u>\$ (273,564)</u>	<u>\$ (70,302)</u>
Net cash used in operating activities		
Supplemental Noncash Activities		
Capital asset acquisitions included in accounts payable	\$ 7,346	\$ -

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kentucky Municipal Energy Agency (“KyMEA” or the “Agency”) is a joint agency organized under the Interlocal Cooperation Act of the State of Kentucky. KyMEA was formed in 2015 to allow its Members to collaborate effectively to do all things necessary or convenient to serve the current and future electric power and energy requirements of the Members and to provide assistance to the Members related to their electric power and energy utility systems. The Agency’s Members currently consist of the following Kentucky municipalities: Barbourville, Bardwell, Benham, Berea, Corbin, Falmouth, Frankfort, Madisonville, Owensboro, Paris, and Providence (the “Members”).

Eight of the eleven Members have entered into All Requirements Power Sales Contracts (“Contracts”). Under the Contracts, these eight members will purchase all power and energy needed to meet their respective retail requirements, beginning May 1, 2019, and the Contracts also obligate these members to provide revenue sufficient to allow the Agency to meet its obligations, including those related to power purchases, administration and prospective debt issuance.

KyMEA’s Board of Directors (the “Board”) is comprised of representatives from each of the Members. The Board directs and makes all significant decisions relating to the operations of the Agency.

Reporting Entity

In evaluating how to define the Agency for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Agency’s ability to appoint a voting majority of another entity’s governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Agency and (3) the entity’s fiscal dependency on the Agency. Based upon the above criteria, KyMEA has determined that it has no reportable component units.

Basis of Presentation

KyMEA’s activities are accounted for on the economic resources measurement focus and use the accrual basis of accounting. KyMEA’s accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). KyMEA prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amount billed to the Members. Accounts receivable are due immediately upon issuance of the invoice, which is ordinarily 20 days after the end of the prior month. Management does not believe an allowance for doubtful accounts is necessary at June 30, 2018 and 2017.

Midcontinent Independent System Operator (MISO) Collateral Deposit

KyMEA is a transmission dependent utility of the Midcontinent Independent System Operator, a regional transmission organization whose purpose is to ensure the reliability of its respective integrated, regional electrical transmission systems, to facilitate a regional wholesale marketplace, to provide non-discriminatory access to the transmission system and to maintain and improve electric system reliability.

The collateral deposit represents funds remitted to MISO as a form of financial assurance to secure the Agency's performance under the terms and conditions of the MISO Tariff related to the purchase of transmission service, market services, ancillary services, and related products or services.

Property and Equipment

Property and equipment acquisitions are stated at cost less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset. The Agency is using an estimated useful life for transportation equipment of 7 years.

At June 30, 2018, construction work in progress consists primarily of leasehold improvements and other related assets for the Agency's office space.

Compensated Absences

Agency policies permit employees to accumulate vacation, personal time and sick leave benefits that may be realized as paid time off or as a cash payment upon retirement. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets- This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of the net amount of assets and liabilities that do not meet the definition of “restricted” or “net investment in capital assets.”

Classification of Revenues and Expenses

Operating revenues and expenses are defined as revenues and expenses directly related to, or incurred in support of, the future procurement and distribution of power and energy to KyMEA’s Members. Operating revenues currently include billings to Members to cover Agency administration costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Income Taxes

KyMEA, as a unit of local government of the State of Kentucky, is exempt from federal and state income taxes.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2018 and 2017

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposit may not be returned to it. The Agency's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Kentucky, bonds of any city, county, school district or special road district of the State of Kentucky or a surety bond having an aggregate value at least equal to the amount of the deposits. State law also allows uncollateralized deposits issued by any bank rated in one of the three highest categories by a nationally recognized rating agency.

At June 30, 2018 and 2017, the carrying amounts of the Agency's deposits were \$61,442 and \$342,612, respectively, and the bank balances were \$152,716 and \$638,720, respectively, which were covered by federal depository insurance up to \$250,000 and then by collateral held by the bank's agent in the Agency's name, for amounts in excess of federally insured limits.

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	July 1, 2017	Increase	Decrease	Transfers	June 30, 2018
Construction work in progress	\$ -	\$ 372,498	\$ -	\$ -	\$ 372,498
Equipment	-	35,662	-	-	35,662
Less: accumulated depreciation	-	(2,123)	-	-	(2,123)
Totals	<u>\$ -</u>	<u>\$ 406,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 406,037</u>

Note 4: Line of Credit

In October 2017, the Agency executed a revolving line of credit agreement, expiring October 19, 2019 for advances up to \$5,000,000. Advances under this agreement bear interest at two percent (2%) above One Month LIBOR, and interest is payable semi-annually. The amount outstanding under this line of credit was \$392,005 as of June 30, 2018.

Kentucky Municipal Energy Agency
Notes to Financial Statements
June 30, 2018 and 2017

Note 5: Operating Leases

The Agency has entered into a noncancellable operating lease for office space expiring in fiscal year 2024. The lease contains two renewal options for 60 months each. The Agency had not taken occupancy of the office space as of June 30, 2018, as such no rent expense was recorded for the fiscal year ending June 30, 2018.

Future minimum lease payments at June 30, 2018 were:

2019	\$ 139,376
2020	155,580
2021	162,183
2022	162,754
2023	162,754
2024	<u>13,563</u>
	<u>\$ 796,210</u>

Note 6: Retirement Plans

The Agency offers all employees a deferred compensation plan, created in accordance with Internal Revenue Code Section 457 (“457 Plan”). The 457 Plan permits employees to defer a portion of their salary until termination, retirement or death.

The Agency also sponsors a defined contribution retirement savings plan, created in accordance with Internal Revenue Code Section 401(a). All full-time employees are eligible to participate in this plan. The Agency contributes 10% of base wages to eligible employees. Eligible employees are those that contribute a minimum of 3% to the 457 Plan. Employer contributions of \$14,286 were made for the fiscal year ended June 30, 2018.

Assets and liabilities of the retirement plans are not included in the Agency’s financial statements as all assets are held and managed by a third-party administrator.

Kentucky Municipal Energy Agency

Notes to Financial Statements

June 30, 2018 and 2017

Note 7: Commitments

Purchased Power Agreements

KyMEA expects to supply nearly all of its power requirements through a portfolio of purchased power agreements. The Agency currently has three purchased power agreements in effect, with varying terms, to supply its power requirements beginning May 1, 2019.

The first agreement is a 10 year arrangement with Big Rivers Electric Corporation (BREC) for 100 megawatts (MW) of firm base load capacity from BREC's portfolio of owned resources. The second agreement is a three year contract with Illinois Power Marketing Company (IPMC) for 100 MW of capacity from IPMC's 500MW Joppa Power Station, which consists of three coal-fired generating units. The final agreement provides for an initial nomination of 90 MW of peaking capacity from Paducah Power System.

Note 8: Risk Management

KyMEA is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to agents and others; and natural disasters. The Agency carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.



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1700 Eastpoint Parkway, Suite 220

Louisville, Kentucky 40223

TEL: 502.242.5635

www.kymea.org

